



DEPARTMENT OF VETERANS AFFAIRS
Regional Office
1240 East Ninth Street
Cleveland OH 44199

July 1, 2002

In Reply Refer To: 325/263
Information Letter 26-02-12
(Rescinds Info Ltr. 26-00-14
dated April 25, 2000)

TO: All VA Loan Servicers and Holders Doing Business in Delaware, Indiana, Michigan, New Jersey, Ohio, and Pennsylvania

SUBJ: Expenses for Property Inspections/Preservation of Security

1. **PURPOSE:** Holders of loans guaranteed by the Department of Veterans Affairs (VA) and holders of VA Regulation (VAR) 4600 loans are responsible for taking proper measures to protect and preserve property pledged as security for these VA Guaranteed and VAR 4600 loans. This information letter describes the minimum requirements for securing vacant properties and the maximum expenses allowed for properties which are used as security for VA guaranteed and VAR 4600 loans in **Delaware, Indiana, Michigan, New Jersey, Ohio, and Pennsylvania**. It is not our intent to regulate the amounts that holders pay to protect and preserve properties or to decide what measures the holder needs to take to preserve a property. Our purpose is to specify the maximum amount that will be reimbursed by this Regional Loan Center (RLC).

2. **EFFECTIVE DATE:** This policy is effective for all VA loan foreclosures on or after July 1, 2002.

3. **PRIOR APPROVAL:** PRIOR APPROVAL IS NOT REQUIRED AND WILL NOT BE GIVEN. If an item is not covered by this information letter or there are unusual circumstances that support additional expense, you may submit complete information to justify the additional expense with the Claim Under Loan Guaranty and request reimbursement at that time. The holder is responsible for measures needed to protect and preserve the security for the loan. The decision as to what action to take to preserve and protect the property is the holder's decision, and it is independent of the amount of the costs that VA will reimburse.

4. **HOLDER'S RESPONSIBILITY:** It is the holder's responsibility to protect and preserve properties when they become vacant and abandoned. HOLDERS ARE TO ENSURE COMPLIANCE WITH ALL CITY, COUNTY OR OTHER ORDINANCES in accordance with the terms of the mortgage loan agreement. A holder may advance any reasonable amount necessary and proper for the maintenance or repair of the security and such advance may be added to the guaranteed indebtedness. Most security instruments have a provision to protect the property securing the loan. The removal of hazardous materials, the correction of

hazardous conditions, and the avoidance of liens are primary concerns. Failure to protect and preserve the security may result in additional losses to the holder. A diminution in value may cause VA not to specify an amount for credit to the indebtedness in the event of foreclosure (no bid). If the holder's failure to protect and preserve the property increases VA's liability, the holder's claim payment may be adjusted (reduced).

5. **REIMBURSEMENT:** Holders will be reimbursed via the Claim Under Loan Guaranty for property inspections and preservation costs incurred before the interest cutoff date and before custody of a property is delivered to VA up to the limits specified below when the prescribed guidelines are followed. Evidence of payment must be submitted with the Claim Under Loan Guaranty, must describe the service provided and the materials used, and specify the date the service was performed. You may find the attached summary (Attachment A) helpful.

6. **ABANDONED PROPERTY:** 38 CFR 36.4346(i)(2) requires that in cases where the loan is more than 30 days delinquent and the property is abandoned, the holder must take appropriate action to protect the property from vandalism and the elements. Within 15 days after confirming abandonment, the holder must report the abandonment to the Secretary and immediately initiate appropriate action to terminate the loan (38 CFR 36.4317(a)).

7. **RESCISSION:** This information letter rescinds all previous Loan Guaranty letters or bulletins issued on this subject by the Cleveland Regional Loan Center.

8. Thank you for your continuing participation in our VA Loan Guaranty program.

/s/

JAMES L. BRUBAKER, JR.
Loan Guaranty Officer

Enclosures (Exhibits A and B)

EXHIBIT A

TO INFORMATION LETTER 26-02-12, July 1, 2002

1. PROPERTY INSPECTIONS

Inspections should be conducted whenever the servicer/holder becomes aware that the physical condition of the security may be in jeopardy. Unless a repayment agreement is in effect, a property inspection shall also be made:

- a. Before the 60th day of delinquency or before initiating action to liquidate a loan, whichever is earlier; and
- b. At least once each month after liquidation proceedings have been started unless servicing information shows the property remains owner occupied.
- c. Whenever a servicer/holder obtains information which indicates that a property securing the loan is abandoned, it shall make appropriate arrangements to protect the property from vandalism and the elements. Thereafter, the servicer/holder shall schedule inspections at least monthly to prevent unnecessary deterioration due to vandalism or neglect. With respect to any loan more than 30 days delinquent, a property abandonment must be reported to the Secretary and appropriate action initiated under 36.4317(a) within 15 days after the holder confirms the property is abandoned.
- d. Reimbursement fees are listed on Exhibit B.

2. LOCKSET INSTALLATION

- a. An acceptable lock shall be installed in the door nearest the street. Existing lock and lock hardware on the door shall be removed and the door frame repaired prior to installation. All other exterior doors shall be secured and existing locks used when in good working order.
- b. All windows shall be closed and locked. When a lender installs the lockset, the keys (2) furnished with the lock must be forwarded to VA with VA Form 26-8903, Notice of Election to Convey and/or Invoice for Transfer of Property. These keys must be attached to receive reimbursement via the Claim Under Guaranty.
- c. On all vacant properties, the servicer/holder must arrange access so that the appraiser can conduct the liquidation appraisal. Failure to do so could result in VA being unable to issue bidding instructions for a pending sale.

3. WINTERIZATION

- a. Required services for all properties:
 - (1) The water shall be shut off at the meter valve; the meter disconnected (not cut) and drained.
 - (2) Drain all water lines by opening all valves and faucets.
 - (3) Drain the hot water tank and open the safety relief valve from same.
 - (4) All commodes shall be flushed to drain all water from tank and bowl. Remaining water must be siphoned out.
 - (5) All drain traps must be siphoned of excess water.
 - (6) All water lines shall be blown clear of all water using a minimum 50 lb. of air pressure.
 - (7) Permanent non-staining anti-freeze suitable for plastic piping shall be poured into each commode bowl and all drain traps.
- b. Required services for properties with hot water or steam heating systems:
 - (1) Open all drain cocks on boiler.
 - (2) Open all valves and air bleeders on expansion tanks and radiators.
 - (3) All return lines shall be disconnected at the lowest point of the system and at boiler return entry, allowing all lines to drain.
- c. Required services for properties with hot water radiant heating systems, water lines in concrete floor:
 - (1) Drain boiler completely.
 - (2) Disconnect distribution lines at boiler and blow all lines free of water using minimum of 50 lb. of air pressure.
- d. Required services for properties with hot water baseboard heating systems:
 - (1) Drain boiler completely.
 - (2) Open all air bleeder valves.
 - (3) Disconnect distribution lines and blow all lines free of water using minimum of 50 lb. of air pressure.
 - (4) If heating system is multi-zoned, each zone or loop must have lines blown.
- e. A tag noting the date of winterization will be attached to the hot water tank, meter shut-off valve, all commodes and kitchen faucets.
- f. Failure to properly winterize a property could result in substantial damage to the property, thereby increasing the risk of a No Bid/No Election case or claim adjustment.

4. LAWN CARE

a. Initial Service:

- (1) Overgrown shrubs or tree branches that are hazardous or obstruct doorways, public walks and driveways shall be trimmed or removed. All observed trash and debris in the year shall be removed as a part of the initial service.
- (2) Lawns shall be cut to a height of two inches. The lawn shall be properly raked and the cuttings removed whenever the height of the grass exceeds six inches.

b. Scheduled cuttings other than the initial service:

- (1) Scheduled lawn care shall begin on April 1st and end on September 30th. Cutting every 14 days is considered reasonable, except during very rainy periods when cutting every 10 days is considered reasonable.
- (2) The entire lawn shall be cut to a height of two inches, unless area exceeds 40,000 square feet (see Exhibit B for instructions). Grass and weeds shall be trimmed around the foundation of all structures, planting beds and fences.

5. CLEAN-UPS

ADDITIONAL CLEANUP WILL BE DONE ONLY IF THERE ARE EXISTING VIOLATIONS AGAINST THE PROPERTY. The cleanup must be substantiated by a copy of the violations notice.

6. SUMP PUMPS

- a. Replacement must be substantiated by photos and will be verified by reviewing the liquidation appraisal.
- b. The servicer/holder is authorized to maintain the electricity on those properties where there is a sump pump. Reimbursement for this payment will be made on the Claim Under Guaranty when a paid receipt is provided.

7. SCREENING AND BOARDING

- a. Screening and/or boarding should be done only in those areas where previous experience has shown vandalism and/or theft to be a regular problem or where special conditions exist that make it necessary.
- b. If VA screening/boarding guidelines are in conflict with local codes or ordinances, the local code or ordinance guidelines will be controlling.
- c. Windows with broken glass will be covered with 4 mil. plastic sheeting.
- d. Fees for services are expressed in terms of united inches, that is, the sum of the height and width of the window. A 30 inch by five foot window would be equivalent to 90 united inches.
- e. Screening - all windows on the first floor and basement level shall be covered with 4 mil. plastic sheeting and ¼" square wire mesh affixed to the frame with 5/8" staples.
- f. Boarding - Nail boarding is not acceptable. Boarding shall include doors, windows and other areas of the structure open to vandals or to the elements. Openings shall be secured by exterior graded plywood no less than ½" thick, or other material of equal strength, cut to fit into the openings. Openings in excess of 48" wide must be framed with 2" x 4" lumber 24" on center. The plywood or equivalent material shall be fastened into the openings by screws or lag screws. On metal casement windows, the openings will be bolt boarded.

8. ROOF REPAIR

Damaged areas of roof should be covered with tarp. Repairs should be made only when cost to repair will not exceed cost to tarp.

9. SWIMMING POOLS

Proper care must be exercised to prevent any accidents. Water should be drained and all gates padlocked. If in poor condition, above ground pools can be removed as junk. Servicer/holders are to ensure compliance with all ordinances pertaining to swimming pools.

CLEVELAND REGIONAL LOAN CENTER

EXHIBIT B

PROPERTY PRESERVATION COSTS

INFORMATION LETTER 26-02-12, July 1, 2002

	OH	IN	NJ	PA	DE	MI
ALLOWABLE PROPERTY COSTS						
Boarding/Screening Per Opening: Windows	\$50	\$50	\$50	\$50	\$50	\$50
Standard Doors	\$60	\$60	\$60	\$60	\$60	\$60
Patio Doors	\$75	\$75	\$75	\$75	\$75	\$75
Basement Windows	\$30	\$30	\$30	\$30	\$30	\$30
Front Door Primary Lock Change	\$75	\$75	\$75	\$75	\$75	\$75
Each Additional Door or Re-key	\$50	\$50	\$50	\$50	\$50	\$50
Hasp and Padlock (Garage/Outbuilding Only)	\$35	\$35	\$35	\$35	\$35	\$35
Debris Removal (If authorized, per cubic yard)	\$35	\$35	\$35	\$35	\$35	\$35
Lawn Care						
Initial Cut City Lot:	\$50	\$50	\$50	\$50	\$50	\$50
Recut City Lot:	\$35	\$35	\$35	\$35	\$35	\$35
Initial Cut Rural /40 ft around or Lg City Lot:	\$100	\$100	\$100	\$100	\$100	\$100
Recut Rural/Lg City Lot:	\$75	\$75	\$75	\$75	\$75	\$75
Swimming Pool (drain & remove)	\$250	\$250	\$250	\$250	\$250	\$250
Winterization:						
Hot Air or Electric Heat	\$100	\$100	\$100	\$100	\$100	\$100
Steam Heat	\$125	\$125	\$125	\$125	\$125	\$125
Sump Pump Installation/Replace	\$250	\$250	\$250	\$250	\$250	\$250
Sump Pump Installation with Plumbing	\$450	\$450	\$450	\$450	\$450	\$450
Tarp Roof	\$250	\$250	\$250	\$250	\$250	\$250
Property Inspections	\$20	\$20	\$20	\$20	\$20	\$20
Utility Bills	Costs reasonable and customary within the geographic area.					
ALLOWABLE LEGAL FEES						
Judicial Foreclosure	\$850	\$850	\$850	\$850	\$850	\$650
Deed in lieu	\$350	\$350	\$350	\$350	\$350	\$350
Bankruptcy	\$650 allowed for Chapter 13 and \$450 allowed for Chapter 7					
EXPENSES ALLOWED ON A CLAIM						
Abstracting or Title Policy	Actual	Actual	Actual	Actual	Actual	Actual
Preliminary Title Exams	up to \$350	up to \$350	up to \$350	up to \$350	up to \$350	N/A
Foreclosure Costs	All required costs are reimbursed based on statutory requirements in each state.					
Bankruptcy Filing Fees	\$75	\$75	\$75	\$75	\$75	\$75
Liquidation Appraisal	\$250	\$275	\$300	\$275	\$275	\$325
Mobile Home Repossession Fees & Charges	All required costs are reimbursed based on statutory requirements in each state.					
SERVICING FEES						
Late Charges	4% of an installment if permitted by the loan instruments. (All areas)					
NSF Checks	Use HUD guideline. (All areas)					
Simple Assumption	\$50	\$50	\$50	\$50	\$50	\$50
Assumption with release of Liability	\$300	\$300	\$300	\$300	\$300	\$300
Charges for Duplicate Copies	Use HUD guideline. (All areas)					
Year End Statements	Use HUD guideline. (All areas)					
Amortization	Use HUD guideline. (All areas)					
Note and Mortgage	Use HUD guideline. (All areas)					
ITEMS NOT ALLOWED ON A CLAIM:	ROUTINE CERTIFIED MAIL		PARKING			
	LATE CHARGES		RETURNED CHECKS			
	LIFE INSURANCE		TELEPHONE CALLS			
	MILEAGE		SALES TAX			
	NOTARTY FEES		FAX FEES			
	PHOTOGRAPHS		PHOTOCOPIES			

Information Letter

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Exhibit B